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Serial No. 10/820,876

PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: Daniel BREEN, et al.

Serial No.: 10/820,876 Group Art Unit: To Be Assigned

Filed: April 9, 2004 Examiner: To Be Assigned

For: SYSTEM AND METHOD FOR INTEGRATING A CONVERTIBLE SECURITY WITH A CALL SPREAD

DECLARATION OF JOHN M. HARRINGTON

Mail Stop Petition
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Sir:

John M. Harrington declares as follows:

1. That he is attorney for the Applicant in the above-identified application; that he is a member of the firm of Kilpatrick Stockton LLP with an office located at 607 14th Street, N.W., Washington, DC 20005; that he is a member of the Forsyth County Bar; is a registered Patent Attorney, Registration No. 25,592; and that he makes this declaration in support of Applicant's Petition to Make Special in this application based on good faith information and belief.

2. The subject matter of the above-identified application relates to a financial instrument and method of structuring the financial instrument, an embodiment of which involves a financial instrument comprising a convertible security providing a first potential financial benefit; a first call option that when exercised provides a second potential financial benefit substantially the same as the first potential financial

benefit; and a second call option that when exercised provides a third potential financial benefit different from the second potential financial benefit. Another embodiment provides a method for structuring a financial instrument comprising first providing a convertible security having a first potential financial benefit; second providing a first call option that when exercised provides a second potential financial benefit substantially the same as the first potential financial benefit; and third providing a second call option that when exercised provides a third potential financial benefit different from the second potential financial benefit.

3. All of the claims presented in this application are believed to be directed to a single invention, or if the Office determines that all the claims presented are not obviously directed to a single invention, an election will be made without traverse as a prerequisite to the grant of special status.

4. A pre-examination search directed to the invention as claimed in this application was made:

(a) in the United States Patent and Trademark Office in Class 705, subclasses 1, 35, 36, 37, 38, and 39; and

(b) in the following electronic databases for non-patent literature: Business & Industry, ABI/Inform, Gale Group PROMT, Gale Group F & S Index, Dialog Global Reporter, Gale Group Trade & Industry DB, Finance & Banking Newsletter, Financial Times Abstracts, Wall Street Journal Abstracts, DELPHES Eur Bus, Accounting & Tax DB, Gale Group Globalbase, Gale Group New Prod. Annou., Business Week, McGraw Hill Publications, American Banker Publications, Bond Buyer Full Text, Business Dateline, and Gale Group Newsletter DB.

5. The pre-examination search uncovered the following references deemed most closely related to the subject matter encompassed by the claims, copies of which references are attached if said references are not already of record:

U.S. 2003/0061148 A1

U.S. 2003/0200167 A1
U.S. 2004/0006528 A1
U.S. 2004/0019555 A1
U.S. 2004/0059670 A1

Peagam, N., "Chicago chases market share in equity derivatives", Euromoney, Vol. 295, PP. 96 (3), November 1993.

Freeman et al., "Tax consequences of business and investment-driven uses of derivatives", Taxes, Vol. 72, No. 12, PP. 947-994, December 1994.

Neish, S., "Will synthetic convertibles save you money?", Corporate Finance, Iss. 135, PP. 45 (2), February 1996.

"Raising debt at a cost below prevailing market rates", International Tax Review, PP. 21-40, June 2000.

Tunick et al., "Fending Off Hedge Funds: New convert strategies aim to counter short sales and dilution", The Investment Dealers' Digest, PP. 9-10, March 10, 2003.

Santini, L., "Zeros Reenter The Convert Fray: Two recent deals use "call spreads" to immunize against dilution", The Investment Dealers' Digest, Pg. 1, June 23, 2003.

"TUI goes bullish with innovative option", Corporate Finance, Pg. 6, November 2003.

Santini, L., "Sepracor CFO Hustles To Bring Zero Converts: A classic CFO's financing dilemma leads to a novel solution", The Investment Dealers' Digest, Pg. 10, December 15, 2003.

6. The following is a detailed discussion of the references pointing out with the particularity required by 37 CFR 1.111(b) and (c) how the claimed subject matter is patentable over the references:

U.S. Pat. App. No. 2003/0061148 A1 to Alavian, proposing a financial derivative and derivative exchange with guaranteed settlement, discloses electronic trading of derivatives with guaranteed settlement between market makers and investors provided by an electronic deposit account to which funds to cover a position are automatically transferred from the investor's account to the market maker's account. See, e.g., Alavian, Abstract; p. 1, par. 0011; and p. 2, par. 0016. Thus, while Alavian discusses purchase and sale of derivatives, such as call options (see, e.g., Alavian, p. 1, par. 0003) and long

and short positions on options with the same maturity but different strike prices (see, e.g. Alavian p. 3, par. 0043), Alavian fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, as recited in the present application.

U.S. Pat. App. No. 2003/0200167 A1 to Kemp, II et al., proposing a system and method for performing automatic spread trading, discloses electronic trading of financial products, such as stocks, options, bonds, warrants, and derivatives. See, e.g., Kemp, II et al., p. 1, pars. 0002-0003; p. 27, par. 0026). While Kemp, II et al., discusses spread trading of options of different expiration dates and/or different strike prices to capitalize on relative movement between the contracts (see, e.g., Kemp, II et al., p. 25-26, par. 0007; p. 27-28, par. 0027), Kemp, II et al. fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

U.S. Pat. App. No. 2004/0006528 A1 to Kevin Fung, proposing a method and system for improving liquidity of transactions for pari-mutuel or betting pools and auctions, discloses performing a price and/or quantity auction on a set of corresponding first and second pluralities of contracts and/or orders. See, e.g., Fung, p. 2, par. 0014. Fung discusses call options and strike prices (see, e.g., Fung, p. 3, par. 0046; p. 4, par. 0047; p. 13, par. 0109; and p. 16, par. 0135), but Fung fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, as recited in the present application.

U.S. Pat. App. No. 2004/0019555 A1 to Lara, proposing a method of guaranteed return on a short-term investment, discloses purchasing instruments at or near their market price and options at or near their bid price and selling options at or near an asked price for a profit on a spread between bid and asked and market and strike prices. See,

e.g., Lara, p. 2, pars. 0016-0018. Although Lara discusses buying and selling options with strike prices (see, e.g., Lara, p. 1, pars. 0006-0008) and buying a pair of options on the same equity with different strike prices (see, e.g., Lara, p. 2, par. 0022), Lara fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

U.S. Pat. App. No. 2004/0059670 A1 to Mills, proposing a method for loan refinancing, discloses selling an interest rate call spread instrument such that when the price of the instrument stays the same or decreases and the call spread is not exercised, the issuer collects the premium from the call spread and returns a customer's loan deposit plus a bonus, or when the price of the instrument increases and the call spread is exercised, the issuer keeps the deposit but the mortgage rate is lowered. See, e.g., Mills, Abstract. Thus, while Mills discusses purchasing call spreads in treasury note futures, Mills fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, as recited in the present application.

The "Chicago chases market share in equity derivatives" article (Peagam) discusses call options or equity-linked securities (i.e., ELKS) and dividend enhanced convertible stock or debt exchangeable for common stock (i.e., DECS). However, while Peagam discusses call options and convertible stock, Peagam fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

The "Tax consequences of business and investment-driven uses of derivatives" article (Freeman) discusses business and investment-driven uses of derivatives. While

Freeman discusses tax treatment of ELKs, PERQs and YEELDs (see, e.g., Freeman, p. 9), adjustable rate convertible notes (ARCNs) (see, e.g., Freeman, p. 9), monthly income preferred shares (MIPS) (see, e.g., Freeman, p. 19), contingent debt instruments (see, e.g., Freeman, p. 24), subordinated liquid yield option notes (LYONS) (see, e.g., Freeman, p. 26), contingent value rights (CRVs) (see, e.g., Freeman, p. 27), stock index growth notes (SIGNs) (see, e.g., Freeman, p. 28), variable rate debt instruments (VRDIs) (see, e.g., Freeman, p. 30), pharmaceutical exchange notes (PENs) (see, e.g., Freeman, p. 33), zero coupon based rate adjustment securities (ZEBRAs) (see, e.g., Freeman, p. 34), market index target-term securities (MITTs) (see, e.g., Freeman, p. 34), stock market annual reset term notes (SMARTs) (see, e.g., Freeman, p. 35), stock upside note securities (SUNS) (see, e.g., Freeman, p. 45), futures contracts (see, e.g., Freeman, p. 50), forward contracts (see, e.g., Freeman, p. 51), option contracts (see, e.g., Freeman, p. 53), exchangeable debentures (see, e.g., Freeman, p. 59), debt exchangeable for common stock (DECS) (see, e.g., Freeman, p. 60), notional principal contracts (NPCs) (see, e.g., Freeman, p. 62), and equity swaps (see, e.g., Freeman, p. 67), Freeman fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

The "Will synthetic convertibles save you money?" article (Neish) discusses traditional convertibles in which a company issues debt or preferred shares and sells an out-of-the-money call, performance equity redemption cumulative stock (PERCS), which is an issue of preferred stock with an imbedded out-of-the-money call on the issuer's stock which the issuer buys, debt exchangeable for common stock (DECS) or stock appreciation income linked securities (SAILS), which are preferred shares that have an at-the-money call spread on the issuer's stock, which the issuer buys. While Neish discusses convertibles and calls, Neish fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial

benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

The "Raising debt at a cost below prevailing market rates" (International Tax Review) discusses raising debt financing at a cost that is less than the borrower's ordinary market interest rate using, for example, hybrid instruments. Thus, International Tax Review discusses dividend enhanced convertible stock (DECS), preferred redeemable increased dividend equity securities (PRIDES), automatic common exchange securities (ACES), premium exchangeable participating shares (PEPS), trust automatic common exchange securities (TRACES), US Treasury zero coupon bonds (STRIPS), participating hybrid option note exchangeable securities (PHONES), zero-premium exchangeable subordinated notes (ZENS), forward contracts, call options, and warrants. See, e.g., International Tax Review, p. 5-8. However, International Tax Review fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

The "Fending Off Hedge Funds: New convert strategies aim to counter short sales and dilution" article (Tunick) discusses use of a call spread to inoculate an issuer's shares against dilution from conversion of zero-coupon convertible bonds. While Tunick discusses buying a call option from bankers to allow the issuer to buy back shares in the event prices rose high enough to cause convertible holders to exchange bonds for equity and simultaneously selling call options at different strike prices and maturities, Tunick fails to teach or suggest a financial instrument and method of structuring the financial instrument comprising, for example, a convertible security and a first call option providing substantially the same potential financial benefits when exercised, and a second call option providing a different potential financial benefit when exercised, as recited in the present application.

The "Zeros Reenter The Convert Fray: Two recent deals use "call spreads" to immunize against dilution" article (Santini I) discusses use of derivatives contracts to create a call spread that immunizes against the risk of dilution. For example, Santini I discusses issuing a zero-coupon convertible subordinated note with a maturity and strike price at a premium, buying a call option by the issuer at the same strike price as the convertibles, and also selling a call by the issuer at a higher strike price. In any event, the present application claims priority to Applicant's U.S. Provisional Application No. 60/461,142 filed April 9, 2003 (See, e.g., Spec., p. 1, par. 0001 and Applicant's Declaration filed in this application), which discloses the subject matter claimed in the present application, and the Santini I article, which is dated June 23, 2003, and is not prior art under 35 U.S.C. §102 or 35 U.S.C. §103.

The "TUI goes bullish with innovative option" article (Corporate Finance) discusses use of a call spread option, such as issuing a convertible at a premium and with a coupon and using a cash-settled call spread option to increase the premium. In any event, the present application claims priority to Applicant's U.S. Provisional Application No. 60/461,142 filed April 9, 2003 (See, e.g., Spec., p. 1, par. 0001 and Applicant's Declaration filed in this application), which discloses the subject matter claimed in the present application, and the Corporate Finance article, which is dated November 2003, is likewise not prior art under 35 U.S.C. §102 or 35 U.S.C. §103.

The "Sepracor CFO Hustles To Bring Zero Converts: A classic CFO's financing dilemma leads to a novel solution" (Santini II) discusses call-spread overlay convertibles to minimize dilution of convertible issuance, such as having the issuer repurchase the same number of options that the issuer sold to investors from the underwriter, and selling an equal number of call options to the underwriter but at a higher stock price. In any event, the present application claims priority to Applicant's U.S. Provisional Application No. 60/461,142 filed April 9, 2003 (See, e.g., Spec., p. 1, par. 0001 and Applicant's Declaration filed in this application), which discloses the subject matter claimed in the present application, and the Santani II article, which is

dated December 15, 2003, is similarly not prior art under 35 U.S.C. §102 or 35 U.S.C. §103.

7. The undersigned attorney for the Applicant declares that all statements made herein are true or, if made on information or belief, are believed to be true and further that these statements are made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 U.S.C. 1001, and that such willful false statements may jeopardize the validity of this document and of the patent application to which it relates.

Respectfully submitted,

Date: 2/1/05 By: John M Harrington

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